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UNITED
NATIONS

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United Nations Conference on Trade and Development

Distr.
LIMITED

TD/B/CN.2/L.8
29 July 1994

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Standing Committee on Poverty Alleviation
Second session
Geneva, 25 July 1994

CHAIRMAN'S SUMMARY

1. The Standing Committee on Poverty Alleviation at its second session discussed a wide range of issues, as reflected in the agenda.

2. There was a lively and extended discussion of the issues of structural adjustment and small-scale enterprises during the informal debate on Item 4. The discussion reflected the importance which delegations attach to those issues, as well as the fact that they had not previously been discussed in preparatory meetings or workshops leading up to the holding of the second session of the Standing Committee. While delegations also attached importance to the issue of job-creation policies, the general sense of the Standing Committee was that substantive discussions of that issue in the United Nations system should be reserved to meetings of the International Labour Organization (ILO). There was also some discussion of the issue of social mobilization and organization of the poor during the informal debate on item 5.

3. The prevailing view of delegates was that orthodox structural adjustment programmes, in the short and medium term, have negatively affected the poor in most developing countries, imposing hardships on those groups with respect to employment, purchasing power and the provision of social services. One delegation suggested that certain sections of the community, especially the rural poor in sub-Saharan Africa, have benefited from structural adjustment.

4. It was acknowledged that without a favourable international environment, it is difficult for structural adjustment programmes to avoid reducing the standards of living of the poor in the adjusting countries concerned. Both national and international efforts should be combined. Fresh inflows of financial resources were considered essential in enabling adjusting countries to (a) mitigate the negative impact of adjustment programmes on the poor and (b) compensate adversely-affected population groups for the social costs sustained during adjustment.

5. Some delegations, on the other hand, emphasized that structural adjustment policies had reduced inflation, rationalized fiscal and monetary practices, balanced the domestic and external account and, most importantly, facilitated the renewal of economic growth in a number of developing countries. In some instances, these achievements led to an eventual reduction of poverty in the countries concerned.

6. While recognizing that the achievement of growth is the primary goal of a successful adjustment programme, many delegates were of the view that the human dimension of adjustment ought to be more emphasized. In accordance with this view, the poor should obtain a bigger share of the benefits of growth and of the outcome of adjustment.

7. There was a general consensus that adjustment policy packages ought to be adapted to the specific economic, political and social circumstances of each adjusting country.

8. Given the consensus that many orthodox structural adjustment programmes have short-term costs for the poor, there was general agreement that structural adjustment instruments in their present form should be reconsidered and their design improved in such ways as to minimize their social costs and adverse impact on the poor. The process of adjustment, it was felt, should have a "human face". The design of macro and meso policies ought to include provisions that take into account not only the chronic poor but also the "new poor" created by the adjustment process: impoverished middle classes, the conjunctural poor, the unemployed, and so forth. Along with growth-oriented objectives, therefore, objectives of poverty reduction ought to be included in the basic design of adjustment policies.

9. With respect to safety nets and social security schemes, it was felt that such schemes ought to be more targeted than is often the case on the most vulnerable of the poor in compensating them for the losses in welfare that they have experienced as a result of structural adjustment policies.

10. It was suggested that the poor, either through their own organizations or representatives, have a potentially important consultative and decision-making role to play when agreements on structural adjustment programmes are discussed. In that way popular acceptance of the eventual adjustment package is likely to be enhanced.

11. The views of delegates differed as to a proper balance between the role of market forces and the State during adjustment. Some delegations were in favour of reducing the role of the State in the economic sphere, while others advocated that the State should intervene more actively in the economy.

12. There was a convergence of views on the need for adjustment programmes to create a favourable environment to private initiative. Given that structural adjustment programmes have often resulted in job retrenchments, delegates were of the view that the role of the informal sector and small-scale enterprises in absorbing the unemployed should be supported and encouraged.

13. A general consensus emerged from the debate regarding the importance of small and micro-enterprises for the creation of employment, a more equitable distribution of income in favour of underprivileged strata of population and, hence, for the alleviation of poverty.

14. In order to increase the contribution of small and micro-enterprises to the alleviation of poverty, Governments might consider pursuing active labour policies with a view to encouraging the set-up of small and micro-enterprises among the most affected groups of population, namely (a) workers retrenched as a result of the public sector restructuring related to SAPs, and (b) young people, often graduated from various types of schools and looking for their first job. Special attention should be given also to projects designed for rural areas, with the aim to increasing the self-sufficiency and, hence, the standard of living of rural families.

15. The view was expressed that the informal sector in the urban areas and the "people's economy" in the rural zones play a crucial role in absorbing the unemployed poor. Therefore, governmental support should be provided to these sectors, with the aim of bringing these activities into the formal sector.

16. As regards the opportunities of small and micro-enterprises in international trade, two opinions emerged. One view was that the scope of these activities is oriented mainly at domestic markets and the needs of the local population. This was particularly the case of micro-enterprises.

17. The second view affirmed that, according to certain national experiences, the small sector both in industry and in agriculture can make a significant contribution to the country's export record, as in cash crops or handicrafts.

18. Following the second line of reasoning, small and micro-enterprises have characteristics which give them reasonable prospects for success in international trade; namely low labour costs, generally lower capital requirements, greater flexibility and innovative capacity, and the ability to produce small quantities of products.

19. However, the export efforts of these enterprises are hindered by lower productivity, financial weakness and the difficulty in producing up to international standards. In this context, specific measures are necessary for increasing the competitiveness of the small-scale sector in international trade, namely: (a) improved access to credit, including the provision of loans adapted to the needs of the small-scale sector; (b) provision of infrastructure, including equipped industrial sites for clustered groupings of small entrepreneurs; (c) enhanced professional training (delivered locally or with the assistance of donors); (d) regulatory environment that is friendly to the creation of small-scale activities, such as simplified procedures for the set-up and running of enterprises or clear land tenure rights and rules in the case of agricultural activities.

20. Most of the small enterprises and virtually all micro-enterprises are unable to penetrate export markets on their own. Three options were therefore suggested to facilitate the access of these enterprises to international markets: (a) to export indirectly, i.e. to establish vertical linkages (through subcontracting) with larger enterprises which would then export the final product; (b) for the associations of producers in clusters of small enterprises to assume the export responsibilities on behalf of their members; and (c) to accede to foreign markets through specialized export companies.

21. A favourable external environment is an important prerequisite for maximizing the contribution of international trade to poverty alleviation and, consequently, for making people see the value of free trade in improving their welfare. In this context, three main points have been put forward: (a) the importance of improved access to developed markets for labour-intensive products originating from developing countries, including through giving them greater GSP benefits; (b) the importance of external assistance in increasing the competitivity of the small sector in developing countries, e. g. through training programmes and the upgrading of technological know-how; and (c) the importance of identifying innovative approaches for raising funds for small-

scale sector enhancement programmes, including debt conversion schemes to mobilize domestic resources which could be used for investment in the small-scale sector.

22. Owing to the fact that there seems to be considerable untapped export potential within the small-scale sector, and due to the lack of available studies on the issue, the delegates welcomed and supported the proposal by the Secretariat to organize a workshop which would examine the topic in greater detail and contribute to a fruitful exchange of national experiences related to the means of enhancing the participation of small and micro-enterprises in international trade.

23. Self-help implies the involvement of the poor in identifying and deciding on their own needs and solutions to local problems. Local associations are flexible and use simple methods of management which make them highly suitable for the social integration of the poor.

24. Programmes intended for the benefit of the poor that are carried out without their involvement risk creating a sense of dependency by not making use of their self-help capacity.

25. Governments can strengthen the self-reliance of the poor by delegating programme responsibilities to the community associations concerned.

26. A balance needs to be struck between entrusting the poor with more responsibility for carrying out programmes of benefit to them and the need for direct government intervention.

27. It was felt that NGOs played an important role in helping the poor implement local programmes that were entrusted to management by community groups. It was also pointed out that some NGOs operated in a top-down fashion without listening carefully to the desires of the poor.